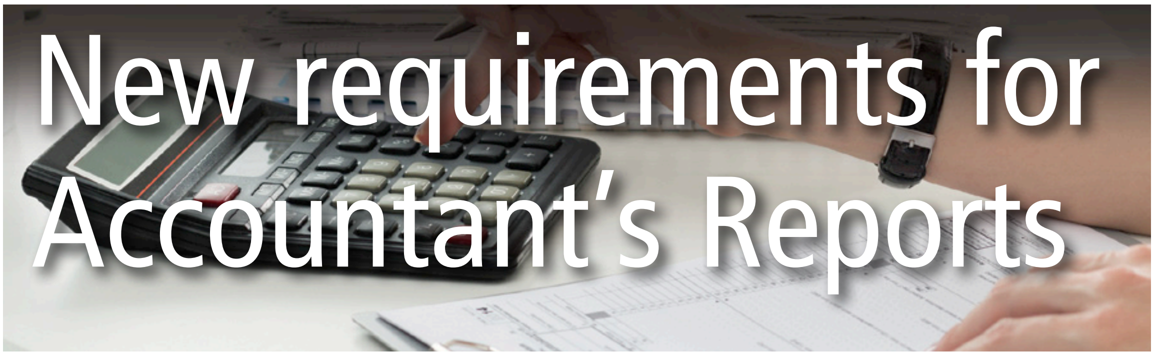
inpractice
Finance and tax information for *legal professionals*

McBRIDES
CHARTERED ACCOUNTANTS

New requirements for Accountant's Reports



On 1 November 2015 the SRA introduced the next stage in client money regulation changes. As the new requirements start to have an impact on practices, we answer your questions on the reporting requirements going forward.

Will I still need an Accountant's Report?

Some legal aid practices are already exempt and from 1 November new criteria have been introduced.

Exemption now applies to any practices where total client money held (including designated deposit accounts):

- Has an average balance of £10,000 or less, and;
- the maximum balance at any point is less than £250,000

It is up to you to determine whether a Report is required based on the above exemptions. All other practices will have to obtain an Accountant's Report. All practices ceasing to hold client money must have a final Report regardless of whether the above criteria are fulfilled.

Will the work my Reporting Accountant performs change?

With effect from 1 November 2015 the SRA have removed Rule 39 completely from the Accounts Rules. Rule 39 set out in detail the tests that all Reporting Accountants should follow. The Rule has been replaced with a new Rule 38, where the emphasis is on the Reporting Accountant to use their professional judgement to determine whether a practice is compliant.

One area where the Reporting Accountant will spend more time will be in planning the work to determine areas which have a higher risk to client money.

Accountants will also place further emphasis on testing the systems and controls in place to protect client money. The Rules on which the testing is based are currently unchanged and therefore, at this stage you will not see a significant difference in the work performed in that regard.

Will my Report be qualified in the future?

The SRA expects far fewer reports to be qualified in the future as a result of the changes. Reports should only be qualified where the breaches identified are "material" and likely to put client money at risk.

"Material" is defined as 'likely to arise as a result of an intention to break the Rules, and/or as a result of significant weaknesses in the firm's systems and controls".

Read our 'Spring Cleaning' article on page three for examples of factors that may lead to qualification and guidance on the reviews you should be doing on your systems and controls.

Will I need to file my Report with the SRA?

There is no longer a requirement to file unqualified Reports with the SRA. It is still a requirement that you have a Report prepared and completed within six months of the end of the reporting period.

You must now retain your Accountant's Report for six years, rather than three.

INSIDE

Are other changes afoot?

The next step for the SRA is to undertake a full rewrite of the Accounts Rules themselves. The SRA is aiming to provide a clear principle based approach and to reduce the amount of prescriptive detail where possible.

The SRA recognises that many of the Rules are outdated, such as testing of the computerisation of records, and also some add little value, such as transfer of earmarked costs within 14 days.

We expect that a consultation on the new Rules will be released in Spring 2016 with implementation 12 months later at the earliest.

Personal tax planning – five tips for minimising your tax liabilities

There are fewer reliefs available these days to mitigate your personal tax liabilities, but you can still take action before 5 April to reduce or limit your 2015/16 tax liabilities.

Here are our five top tips

1 Pension planning

By far the easiest and most effective. Make sure you maximise your pension contributions in 2015/16 before limits reduce further in 2016/17. Don't forget you can utilise unused contributions from the previous three years, and if you made contributions between 6 April 2015 and 8 July 2015 you may be able to get some additional contributions in.

2 Declare additional dividends

Shareholders of limited companies could mitigate the additional 7½% divided tax coming into force from 6 April 2016 by bringing forward dividends into 2015/16. Restrictions and rules apply and each case is different depending on income levels but in some cases it may be a 'no-brainer'.

3 Use them or lose them

Some tax allowances are lost forever if not used. Make sure you don't miss out on the following:-

- ISA contributions
- Pension contributions as above
- Personal allowance and basic tax rate bands
- Capital Gains Tax free allowance
- IHT gift thresholds

4 Claim those expenses

They may be 'out of pocket' but they can soon add up and save you tax! Don't forget to claim:-

- Travel, parking and taxis
- Business use of own car (45p/25p per mile)
- Postage
- Entertaining, subsistence and staff welfare

And interest on loans (including remortgages) taken out to fund partnership capital – these are often forgotten.

5 Shift your income

It may be late in the day for 2015/16 but it will have an ongoing benefit. So often we see higher earning spouses in receipt of income from bank accounts held jointly with their non or lower earning spouses.

Shifting income between spouses from higher to lower earners in respect of interest, dividends, rental and other income is easy and can save you a small fortune in tax. Don't delay!

With the changes to the SRA Accounts Reporting requirements, many solicitors have been left wondering exactly how they are likely to be affected, and whether there is anything they need to be doing to prepare for their accountant's annual visit. The Accounts Rules themselves have not changed and so from an accountant's point of view the level of work is unlikely to change dramatically in the short term. However, the way compliance is tested has changed, and the onus is now on the Reporting Accountant to decide which areas are risky. This means more work will be carried out on your systems and controls and so now is the perfect time for a spot of "spring cleaning" in terms of your Practice's procedures manual. Are the controls you have in place still relevant, and are they still being followed?

Let's look at some examples:

Reviewing matter listings

Ensure that the matter balances are provided with the monthly reconciliations so the COFA can review the listing for old and debit balances. These should be signed to show that they were reviewed.

Overdrawn client ledgers

When requesting a payment from the client account, it is important that the client ledger is checked to ensure enough money is held for that client. This should be evidenced on the payment request form.

Authorising payments

You should also check that the request is appropriately authorised by someone in accordance with the current bank mandate.

Maintaining registers

There are currently a number of central registers required by the Rules, and these are key to compliance. For example, reference to the list of bank accounts will ensure that all the relevant accounts are included in the monthly reconciliation.

Don't stop there. There are many areas that require effective controls to comply with the Rules and your duster needs to reach every nook and cranny! As you would expect, many breaches in one particular area will indicate a lack of adequate controls, and this is why the Breaches Register will be particularly important in the future. The Reporting Accountant can suggest areas for improvement and use their experience to recommend more appropriate controls and procedures where they spot potential deficiencies.

You can find more guidance on the SRA website that specifically hones in on various indicators of weak and strong controls at www.sra.org.uk/ar1

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10% discount on ILFM training

The Institute of Legal and Financial Management runs a range of one day or half day training seminars around the country on topics close to our hearts such as the SRA Accounts Rules, COFA responsibilities and practice management. McBrides' clients and contacts can obtain a 10% discount on ILFM one day training seminars. To obtain the discount you must book four weeks in advance of the seminar date and quote 'McBrides' when booking. For more information regarding the training days please look at their website, www.ilfm.org.uk.

Monday 22 February	VAT for Legal Accounting
Wednesday 2 March	Introduction to the Legal Finance Dept
Wednesday 16 March	COFA Training
Tuesday 26 April	Financial Management
Tuesday 24 May	SRA Accounts Rules 2011
Monday 6 June	Practice Management
Wednesday 15 June	COFA Training
Monday 20 June	Credit Management
Monday 20 June	VAT for Legal Accounting

Important dates reminder

31 March is the deadline for practices with a 30 September year end to submit their Accountant's Report to the SRA

31 May is the deadline for having an Accountant's Report prepared in respect of a November 2015 year end, unless your practice is exempt under the new Accounts Rules.

31 July is the next deadline for tax payments on account. (Don't forget to elect to reduce these 'POAs' if possible!)

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Lexcel

Lexcel is the Law Society's legal practice quality mark for excellence in legal practice management and client care.

Applications for Lexcel accreditation (and re accreditation) must now be supported by a reference from your accountants. The requirement was introduced with Lexcel V6 for practices operating in England and Wales and was effective from May 2015.

The reference requires the practice's accountant to confirm that the practice is considered good for its normal business engagements and that it is able to pay it's debts as they fall due.

So don't forget to approach your accountant if you are about to go through the process of applying or renewing your Lexcel accreditation!